



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

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**Governor Granholm Unveils Pro-Growth Tax Plan;
\$150 Million Net Tax Cut for Michigan Businesses,
Critical Programs Protected**
Michigan Business Tax plan is fair, simple and stable

LANSING – Governor Jennifer M. Granholm today unveiled details of the Michigan Business Tax (MBT), her new plan to replace the out-going Single Business Tax (SBT), making the state's business climate more competitive and ensuring that funding will be available for critical programs including public education, health care, and public safety. The plan is built on the principles Granholm has outlined this year: a tax that is revenue neutral with a low rate and broad base that doesn't tax payroll or health care.

Under the Governor's proposal, 77 percent of businesses will pay less taxes, and funding for critical programs citizens depend upon will be protected. In addition, the plan provides a \$150 million tax cut to Michigan businesses.

"The Michigan Business Tax is win-win. It's a competitive, pro-growth tax that will benefit more than three-fourths of businesses while protecting funding for critical programs like health care, public education, and public safety and providing a tax cut for Michigan businesses," Granholm said.

The MBT is based on the following principles:

- **Create a business tax with the *broadest base* and the *lowest tax rate* possible**

The MBT has three components in the base: gross receipts, assets which will be taxed at 0.125 percent and business income which will be taxed at 1.875 percent. These rates are among the lowest in the nation and well below the current SBT rate.

- **Benefit Most Businesses**

The apportionment formula under the MBT is based 100 percent on a firm's percentage of Michigan sales, compared to the current SBT which is based 92.5 percent on sales and 3.75 percent each on the percentage of payroll and property. **Michigan businesses will receive a \$150 million tax cut.**

77 percent of Michigan businesses will pay less under the MBT – a higher percentage of winners than under any current public plan.

(more)

- **Provide *substantial personal property tax relief to industrial and commercial taxpayers***
Industrial and commercial businesses receive a 46 percent personal property tax cut
- **Eliminate the tax on payroll, benefits, and health care**
Wages and benefits, including health care are not part of MBT's base.
- **Ensure revenue neutrality to *protect citizens from higher taxes or huge cuts in education, health care, or public safety***
The MBT raises the same amount of revenue as the current tax to protect education, health care, and public safety from devastating cuts while preserving the \$600 million in tax cuts that start taking effect this year.
- **Help Small Businesses**
Businesses with less than \$350,000 in gross receipts are not subject to taxation. The MBT is phased in for companies with gross receipts between \$350,000 and \$700,000 to eliminate the "cliff" effect in the current law. Small businesses may also choose to pay an alternative tax of 1.8 percent of adjusted business income.
- **Help High Tech Companies**
Technology companies that form the heart of the Governor's 21st Century Jobs Fund will receive a \$125 million tax cut. Five of every six companies in these sectors will benefit. In addition, the MBT creates a new MEGA credit to encourage research and development innovation in Michigan.
- **Protect Economic Development Tools**
MBT retains the current MEGA compensation credit as well as the MEGA credit for high tech jobs, brownfield tax credits, historic preservation credits, and Renaissance Zones.

After presenting her new Michigan Business Tax, Granholm encouraged legislators to take up the legislation before they adjourn at the end of the year.

"For nearly two years, the Legislature has claimed tax reform as one of its top priorities," said Granholm. "These leaders have a chance to make a true difference in Michigan's future by creating a competitive tax climate that encourages businesses to locate and helps them thrive here. But they must act."

Legislation to implement the MBT will be introduced in both legislative chambers today. Sponsors are expected to be Senator Bob Emerson (D-Flint) and Representative Dianne Byrum (D-Onondaga).

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GOVERNOR GRANHOLM'S OBJECTIVES

Making Michigan's business climate more competitive is a key component of Governor Jennifer M. Granholm's comprehensive economic plan. She proposed an overhaul of the state's Single Business Tax (SBT) and signed into law more than \$600 million in tax cuts to help Michigan businesses. Now that the Legislature has repealed the SBT, the Governor believes that replacing the tax and revenue it generates is critical to making Michigan more competitive and maintaining our quality of life.

Governor Granholm believes it is time for a competitive, pro-growth business tax that is fair, simple and stable. In addition, the Governor has fought steadfastly against any plan that shifts more of the state's tax burden from businesses to individuals or requires devastating cuts to education, health care or public safety.

The Governor's new plan, the Michigan Business Tax, was developed on the following principles:

- Create a business tax with the *broadest base* and the *lowest tax rate* possible
- Provide *substantial personal property tax relief* to industrial and commercial taxpayers
- Eliminate the tax on payroll, benefits and health care
- *Preserve economic development tools* to help attract new jobs and investment
- Spread the tax fairly to all types of business organizations while maximizing the number of businesses receiving a tax cut
- Ensure stable funding to *protect citizens from higher taxes or huge cuts in education, health care or public safety* while preserving the \$600 million business tax cut that takes effect this year
- Make the tax simple

PARTS OF A BUSINESS TAX

There are two components of any business tax. The first is the *base*, which is the elements of a business' activities that are being taxed. The second is the *rate*, which is the numerical percentage applied to the tax base.

Rate multiplied by the base equals the business' tax liability.

OVERVIEW OF THE MICHIGAN BUSINESS TAX (MBT)

The MBT has 3 components in the *base*. These are:

1. Gross receipts
 2. Assets of the taxpayer
 3. Business income
- *Gross receipts* are the total receipts of a business for goods sold or services rendered during the tax year.
 - *Assets* include the following, which federal tax law requires most businesses to report:
 - (a) Cash
 - (b) Trade notes and accounts receivable
 - (c) Loans to shareholders
 - (d) Mortgage and real estate loans
 - (e) Other investments
 - (f) Buildings and other depreciable assets, less accumulated depreciation
 - (g) Depletable assets, less accumulated depreciation
 - (h) Land net of amortization (costs spread out over time)
 - (i) Amortizable intangible assets (whose cost can be spread out over time), less accumulated amortization
 - (j) Other assets

By definition, assets will not include good will, treasury obligations, or tax exempt securities.

- *Business income* is the profit received from engaging in business activity.

The MBT *rates* are among the lowest in the nation:

- 0.125% for gross receipts
- 0.125 % for assets
- 1.875% for business income

In addition, there is an *apportionment formula*, which for a multi-state firm is the formula for determining the percentage of the nationally computed tax base that is subject to tax in Michigan.

The apportionment formula under this new tax is based **100% on a firm's percentage of Michigan sales**, compared to the current SBT which is based 92.5% on sales and 3.75% each on the percentage of payroll and property. Under this formula, a business' tax base will not increase when jobs or investment are added in Michigan.

Therefore, Michigan businesses will receive a net tax cut of \$150 million.

BENEFITS FOR SMALL BUSINESS

The MBT helps Michigan's small businesses by cutting that alternate tax rate they pay and eliminating the "cliff" effect. In addition, the MBT maintains the provision in the current law that makes businesses with gross receipts under \$350,000 not subject to taxation.

Under current law businesses with gross receipts of less than \$10 million and compensation to owners of less than \$115,000 pay a tax of 2.0% of business income. The MBT provides a tax cut. These businesses will now be able to pay a tax equal to 1.8% of adjusted business income. The \$350,000 filing exemption has been criticized because of what is referred to as the “cliff” effect. Under the SBT a business with gross receipts of \$350,000 plus one dollar is liable for the SBT on all of its business activity even though a business with \$350,000 has no liability. This is the “cliff.” The MBT eliminates this problem by phasing in tax liability for small businesses between \$350,000 and \$700,000 in gross receipts. This phase-in means that the average rates for these small businesses would be half the rate of the current business tax.

The Grand Rapids Chamber of Commerce and the Michigan State Chamber of Commerce have proposed a minimum tax for any business with at least one employee and a business income of \$150,000. This feature is ***not included*** in the MBT.

INSURANCE COMPANIES

Under current law, domestic insurers (organized in Michigan) pay a tax equal to 1.07% of their gross receipts, offset substantially by credits for assessments paid to residual market mechanisms. Foreign companies (organized in another state) pay the greater of this tax or a retaliatory tax equal to what a Michigan company would pay if it were doing business in that foreign company’s home state.

Under the MBT, insurers will pay a tax of 1.25%, and the credits would be eliminated. The retaliatory tax would remain as it is in the current tax.

Michigan insurance taxes are 3rd lowest in the country, measured either on a per capita basis or as a percentage of personal income. *Even after this increase, Michigan will still be 6th lowest, well below the national average.*

REDUCING THE PERSONAL PROPERTY TAX

Business personal property is currently subject to the 6-mill state education tax and the 18-mill school operating tax imposed on non-homestead property. Under the MBT, property classified as industrial and commercial will be exempt from both of these millages. This exemption amounts to a **46 percent reduction in personal property taxes** statewide, although the percentage reduction will vary by jurisdiction.

The effect of these exemptions is to reduce the amount of revenue from taxes paid under the state education tax and from industrial facilities taxes remitted to the state. The local school district’s property tax base is also reduced which increases expenditures from the School Aid Fund (SAF). The MBT earmarks a portion of its revenue to the SAF in order to hold it harmless from the loss of the state’s share of the personal property tax and the increased spending demands that will result.

PROTECTING ECONOMIC DEVELOPMENT INCENTIVES

MBT *retains the current MEGA* compensation credit which permits a credit equal to up to 100% of compensation for created or retained jobs for up to 20 years. Businesses with preexisting commitments will be able to claim the credit under the new system for the same number of years. Businesses with commitments for projects where jobs will be added or retained and investment will be made after the repeal of the SBT would be able to claim those credits under the MBT, as well.

Brownfield and historic preservation tax credits will also continue. Commitments made for brownfield and historic preservation credits made before the end of 2007 (the SBT repeal date) but

completed after the SBT repeal would be honored under the new tax. Businesses with unused credits for projects that have been completed (the credits are not refundable) would be able to use them.

Businesses exempt from the current tax for the portion of their business activity occurring in a *renaissance zone will continue* to receive the exemption under the MBT for the remaining years in the life of the zone. Businesses locating in a renaissance zone after the repeal of the SBT would be exempt under the MBT.

A new MEGA credit will also be provided for research and development. The new tax credit would be available to an established Michigan business (i.e. Cobasys, Energy Conversion Devices, GM, Pfizer, etc.) to help fund R&D innovation and development at a partnering Michigan small business. A single credit would be capped at \$500,000.

BENEFITS FOR HIGH TECH COMPANIES

The Michigan Business Tax also helps position us for the future. The business sectors that form the heart of the Automation Alley such as life sciences, advanced manufacturing and other technologies will receive a tax cut of more than \$125 million. Five of every six businesses in these sectors will receive a tax cut under this plan. These existing companies and new companies that will result from the 21st Century Jobs Fund benefit from the elimination of the tax on compensation, the low tax on profits and the reduction in the personal property tax.

In addition, the MBT, unlike the other public plans, continues MEGA credits for high tech jobs, continues next energy credits for alternative energy technologies and creates a new credit for research innovation.

WINNERS AND LOSERS

Whenever a business tax is replaced, the tax liability of businesses will change. This inevitable shift means that some taxpayers will pay more and other taxpayers will pay less. By a different, broader base and low rate, the MBT maximizes the number of firms that receive a tax cut.

Under the MBT, approximately 111,000 businesses should expect lower tax bills, while 34,000 will see an increase. That's 77% winners – a ratio of a three to one of winners to losers.

The MBT has a higher number of firms receiving a tax cut than any current public plan.

FISCAL IMPACT OF THE PROPOSAL

This proposal is revenue neutral, absorbing the \$600 million in business tax relief that becomes effective this year.

OTHER STATES

Each component included in the MBT's tax base is taxed by a number of states.

Forty-four states have some version of either a corporate or business income tax. Nineteen states employ a franchise tax either in addition to or as an alternative to an income tax. A franchise tax is a tax on net worth (assets minus liabilities): looking at assets for the part of the base is fairly common. Six states have a tax on gross receipts.

The two states that have done tax reform most recently - Texas and Ohio - are using a form of gross receipts tax, although the “Texas margin tax” has a number of deductions from gross receipts.

LEGISLATION REQUIRED TO IMPLEMENT THE PROPOSAL

Five bills will be needed to implement the proposal:

- A new act creating the Michigan Business Tax, which is the major bill in the package
- Amendments to the school code
- Amendments to the state education tax act
- Amendments to the general property tax act
- Amendments to the industrial facilities tax act



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Governor Granholm's plan, the Michigan Business Tax (MBT), is based on the principles she has articulated and creates a fair, stable tax that will encourage growth. The MBT:

➤ **Creates a business tax with the broadest base and the lowest tax rate possible**

The MBT has three components in the base: gross receipts, assets which will be taxed at 0.125 percent and business income which will be taxed at 1.875 percent. These rates are among the lowest in the nation and well below the current SBT rate.

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➤ **Ensures stable funding to protect citizens from higher taxes or huge cuts in education, health care or public safety**

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➤ **Protects Economic Development Tools**

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